THE NATIONAL CITY BANK OF NEW YORK

1812

1925

Economic Conditions
Governmental Finance
United States Securities

New York, July, 1925

General Business Conditions

THERE has been no pronounced change in the state of business during the past month, but fundamental conditions have improved and the outlook is more definitely encouraging than it was in the Spring months. Skepticism as to the permanency of the business revival gained the ascendency in March, when stocks and grain were taking their downward plunge, and the outlook for the crops in April and May was calculated to strengthen misgivings as to what the year had in store. The volume of trade, however, held up very well throughout, giving evidence that business was on a solid basis.

The following figures represent aggregate debits to individual accounts by the member banks reporting to the reserve banks in 1924 and 1925:

Bank Debits from January 1, 1925 to June 17, 1925 compared with the corresponding period of 1924
(In millions of dollars)

Reserve District	Entire Country 1925	1924	Per cent Increase over 1924
Boston	13,061	11,691	11.7
New York	146,189	122,040	19.8
Philadelphia	11,482	10,532	9.0
Cleveland	13,051	12,205	6.9
Richmond	4,392	4,080	7.6
Atlanta	6,103	5,395	13.1
Chicago	28,844	25,679	12.3
St. Louis	6,591	5,911	11.5
Minneapolis	3,972	3,195	24.3
Kansas City	6,128	5,569	10.0
Dallas	3,233	2,800	15.5
San Francisco	14,619	13,972	4.6
Entire Country	excluding	New York	City
January	22,277	19,384	14.9
February	18,571	17,512	6.0
March	21,219	19,193	10.6
April	20,592	18,865	9.2
May	20,397	18,639	9.4
June to the 17th	12,564	10,932	14.9

Agricultural Prospects

In June the situation has been braced up and sentiment improved by generally better crop conditions. The winter wheat crop is about 200,000,000 bushels short of last year's yield, but the farmers are receiving 30 to 40 cents more per bushel for their early marketings than they did last year.

The Spring wheat crop is doing well, but the fateful hour for this crop has not yet arrived. The Canadian crop looks as though it might be 100,000,000 to 150,000,000 bushels larger than last year. Prospects are good generally over Europe, and Russia probably will have something to export.

The most significant change in crop prospects has been in corn. It received a bad setback by frost in May, but has completely recovered, is now reasonably advanced and giving promise of one of the largest crops ever produced. Corn is the mainstay of agriculture in the middle west and a good yield means the restoration of normal conditions in that region. The cattle industry will be revived and pork production made profitable.

The cold, dry Spring was unfavorable for oats, hay, pasture grass and everything that was trying to grow, but abundant rains over most of the west have accomplished great improvement, and the general feeling is that of optimism. Yields promise to be generally good but not excessive and prices remunerative.

The wheat-growing sections had a very successful year in 1924, but much of the proceeds had to go for debts; nevertheless, all business in those sections has been greatly benefited. The corn and live-stock country, however, did not have a good year in 1924, and that is one reason why business has not come up to all expectations in 1925. The outlook now is for recovery in this line.

The cotton growers had as good a year as the wheat-growers in 1924, and prices are now on a satisfactory basis, but the size of the crop is yet to be determined. At present the prospect may be said to be for a crop as large as last year's, but the outcome is dependent upon the weather.

From August 1st, 1924, to June 30, 1925, the world has taken a little above 8,000,000 bales of American cotton, as against about 5,600,000 bales in the corresponding period of the last cotton year, and 4,500,000 bales in the corresponding period of the next preceding year. This shows that consumption is rapidly recovering. The carryover at the end of this crop year, July 31st, will be about the same as last

year. With a crop of 14,000,000 to 15,000,000 bales, the cotton growing states will have a good year ahead of them.

All in all, the outlook for agriculture is much more definite and encouraging than it was six weeks ago, and this is very reassuring to business generally.

Industrial Activity

Building operations continue upon a great scale, so that whatever uncertainty existed upon this point in the early Spring has been completely removed. The railroad equipment industry is slack, but with the heavy traffic being handled large expenditures for new equipment and facilities are inevitable.

The automobile industry, which started the year cautiously, with a determination to avoid an accumulation of unsold cars, has been generally behind orders since April. Although the seasonal falling off of orders is now noticeable, manufacturing activities are still going strong, with better prospects for the second half of the year than in 1924. The state of the industry is significant of a more optimistic feeling in the country than prevailed in earlier months.

The iron and steel industry is holding up in the Summer season much better than last year. Production is at about 70 per cent of capacity, whereas a year ago it was down to 45. Buying has been in better volume in the last month, a clear indication that stocks are low. Prices have suffered from the anxiety of producers to maintain operating schedules, and the Iron Age composite figures now are the lowest since September, 1922

The consumption of copper is on a large scale, but production is heavy from low cost countries and keeps the price down to figures that are unremunerative to high-cost producers. Prices were stronger about the middle of June, upon reports of a curtailment of production, but ended the month at about the figures of the opening, 13½ cents f. o. b. refinery. European consumption is increasing. In the first ten months of the fiscal year just closed this country's exports of copper to Germany aggregated 198,241,073 pounds, against 123,006,952 pounds in the corresponding months of the previous year. A great expansion in the uses of electricity is impending, and this is relied upon to reinstate the industry on a more remunerative basis.

Lead production has been at full capacity, and there is little spot lead in sight, but prices have eased off slightly, in sympathy with prices abroad, from 8.40 to 8.20 in New York. Zinc has been influenced in like manner from 7.42½ to 7.30-5, New York. Silver has been stronger than for some time, and closed the month practically above 70, against 68½ at the beginning.

In the textiles, a little better feeling is manifest. Buyers have taken cotton prints more freely than for some time, but cotton goods generally remain on an unsatisfactory price basis. The feeling grows that there must be a substantial curtailment of mill operations, but obviously this is difficult to accomplish. In woolen goods the situation is improved by a better movement, and in silks, including rayon, prosperity prevails.

Coal production has been slightly larger since April, but the industry is still in the throes of reorganization. It is idle to lament or complain over unemployment and unprofitable conditions in this industry. They have been brought on by uneconomical conditions in the industry and can be remedied whenever the several factors in the industry make up their minds that the problem is one for their own solution. Meanwhile the industry is a drag on general prosperity, and there have been enough public commissions upon it.

The implement industry, fertilizer industry and all other lines that are dependent upon agriculture, and have been depressed with agriculture, are reviving, and themselves contributing to better general conditions.

Foreign Trade and Credit

Foreign trade in the fiscal year just closed has piled up another large trade balance in favor of the United States. We sold more and bought less than in the previous year, and for the eleven months ended with May the favorable balance was $1,034,481,000. Our foreign loans have been enough to settle it, and without these loans Europe either could not have bought so much or could not have made the progress which has been accomplished toward reestablishment of the gold standard.

Credits are standing here now in favor of Great Britain, France, Belgium, Italy, Sweden and Denmark for sums aggregating approximately $600,000,000, for the purpose of stabilizing their currencies. The movement to gold resumption is at a critical stage, and a general rise of exchange rates in favor of the United States is at present undesirable.

The credit situation in this country remains very easy and favorable to business expansion. The clearing up of western banks which has resulted from improved conditions in the wheat belt has increased the supply of credit available, and since inventories are generally low, business is running with a minimum of bank accommodations. The reduction of the short term debt of the United States in the past year to the extent of about $250,000,000 in addition to that accomplished by the regular operations of the sinking fund, of course throws that much capital into the market for new investments.

The Bond Market

With no indications of an early speeding up in general business which might force up money rates, and with the volume of new financing still considerably restricted, the stage seems set for the maintenance of bond prices at or near their present levels for some time to come. The Dow Jones average for 40 listed issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) shows little change during June. The average on June 25th was 93.08 as compared with 93.11 on May 25th, and 90.16 on June 25th a year ago. Bond yields are not as high today as they were during the abnormal period from which we have recently emerged, but are higher than the averages for many periods of the past.

The market for United States securities has been particularly strong. The Treasury 4¼s of 1952 and 4s of 1954 both sold at new high levels for all time, while the Liberty 4¼s of 1938 equalled their previous high. Funds released for investment through redemption by the Treasury Department of $400,000,000 United States 4¾ Per Cent Notes doubtless had considerable to do with this market strengthening, inasmuch as only $125,000,000 of new One-Year 3 Per Cent Certificates were offered to take their place.

In the field of new financing, interest centers on foreign issues, the principal new offerings during the month being $30,000,000 Norway 5½s due June 1, 1965, offered at 96¾ to yield 5.70 per cent; $50,000,000 Belgian Sinking Fund 7s due June 1, 1955, offered at 98 to yield 7.15 per cent; and $45,000,000 Argentine Sinking Fund 6s due June 1, 1959, offered at 96 to yield over 6.75 per cent. A comparison of present yields on good foreign bonds with the general run of yields on the better domestic issues, soon makes evident that the big income opportunities at present lie in securities from abroad. The rapidity with which new foreign offerings are being absorbed indicates that keen investors are not slow to capitalize these income advantages, but there are still thousands of investors for whom good foreign bonds might play a profitable part in a broad scheme of diversification. This income differential is sure to narrow down as the market for foreign issues in this country widens and as financial conditions grow easier in Europe. It is the opinion of many bankers that investors who hesitate to enter the foreign field today will look back years hence and wonder at their lack of courage. Sound foreign issues sponsored by syndicates which can obtain broad distribution and maintain a satisfactory market are receiving more attention from experienced investors today than ever before.

It must be considered that this European financing probably is a passing feature of our money market. Prior to the war interest rates always were lower in Europe than in the United States and they probably will be again. Already some European borrowers are retiring from this market. The city of Berne, Switzerland, placed here on November 1, 1920, a loan of $6,000,000 in 25-year 8 per cent bonds, which carry a redemption privilege at 107 after five years. It is understood that this option will be exercised on November 1st next, as the money can be borrowed now at home at 5 per cent or less. The Swiss Government borrowed $20,000,000 here in 1923 for three years on a 6 per cent basis, the bonds carrying right of redemption after two years, and notice has been given that this right will be exercised on August 1, next. The Dunlop Tire and Rubber Corporation of America, a subsidiary of the Dunlop Rubber Company, Limited, of England, issued $11,000,000 of 7 per cent bonds here in 1922 at 95, yielding 7.60 per cent, due December 1, 1942, redeemable before maturity at 105. These bonds are now being replaced by a debenture stock issue in England. These redemptions are signs of a tendency.

That nations long accustomed to foreign investments give such securities as these foreign loans a higher rating than more or less inexperienced investors in our own country, is evident from a comparison of the present yields of some of the better known foreign dollar bonds with the yields of similar bonds issued through London in sterling. The following table of comparative yields, showing market yields as of June 11, 1925, is interesting:

NEW YORK

(Dollar Bonds)	Yield
German—External 7s of 1949	7.29%
Austria—Guaranteed 7s of 1943	7.04%
Sweden—Government 6s of 1939	5.52%
Argentine—Government 6s of 1959	6.27%
Railway—P. L. & M. Rail 6s of 1958	7.77%

LONDON

(Sterling Bonds)	Yield
External 7s of 1949	7%
Guaranteed 6s of 1943	6.57%
Government Perpetual 3½s	5.01%
Capital 5s of 1949	5.75%
P. L. & M. Rail 6s of 1958	7.43%

When sterling, now on a gold basis, becomes properly fortified through more normal international gold movements, London will offer increased competition for foreign loans which should tend toward lower rates on new foreign issues offered in this country. Any such movement of course will be reflected in an improvement in price of foreign dollar issues now outstanding.

Investment funds continue to accumulate and dealers generally report a shortage of issues to satisfy the demand. Competition for

new issues is unusually keen. The continued buying of older outstanding bonds has put the market on a firm foundation.

The St. Paul Reorganization Plan

Messrs. Kuhn, Loeb & Co. and the National City Company, as reorganization managers have announced the plan for readjustment of the capitalization of the Chicago, Milwaukee & St. Paul Railway Company, and the plan has been approved by the several protective committees acting for the different classes of stocks and bonds affected.

The object of the plan is to accomplish by agreement between the parties concerned such a readjustment as will effect three principal purposes, to-wit: (1) make provision for the bond issues due and of early maturity, (2) reduce the aggregate of fixed interest charges to a sum safely within net earnings, (3) give the company a margin of earnings and borrowing power to provide working capital and equipment and make necessary improvements now and as needed.

The immediate cause of the receivership was maturing bond issues aggregating about $48,000,000, due June 1, 1925, but back of these are other issues approaching maturity, making a total from 1925 to 1934 of approximately $240,000,000. The road had failed to earn operating expenses, taxes, fixed charges, and deductions for sinking and other reserve funds in every year since 1917, excepting 1923, when the excess was only $207,000. In 1924 it fell short of covering these charges by $1,868,606.

The results in 1924 made an end of hopes that the approaching maturities might be met without reorganization. Excepting the underlying issues secured upon the most valuable divisions, the bonds were selling on the market at not much more than one-half their face values, and of course new obligations could not be sold under such conditions.

Before the receivership proceedings were inaugurated, the Board of Directors of the company had employed a well-known firm of railroad engineers to survey the properties and make a report upon conditions and prospects. The report estimated that the company would need over the next ten years an average of $17,580,000 per year for improvements and new equipment, in order to keep the road in condition to render proper service. This requirement also was a factor in determining the policy adopted.

The preferred and common stock had paid no dividends since September 1, 1917, and without a reorganization inevitably would be wiped out by foreclosures. The junior bonds, or bonds secured upon branches and extensions whose value depends largely upon their being parts of the St. Paul system, were likewise interested in a reorganization which would hold the system together, relieve its financial embarrassment and make a fair adjustment of the necessary sacrifices among the several groups whose interests were in peril.

The Debt Adjustment

The capital invested in the company when the road went into the hands of receivers was represented by approximately $470,000,000 of bonds and $233,000,000 of stock. Of the bonds, $238,000,000 are left undisturbed by the reorganization, for the reason that they are secured by various mortgages upon equipment or essential sections of the system, and so well-secured that their value is not dependent upon the reorganization. Their holders will continue to get their interest returns regularly and do not participate in these proceedings.

Next to these bonds, provision is made for a new First and Refunding mortgage, to provide for financing future capital expenditures. The authorized amount of bonds under this mortgage will be limited to twice the amount of the capital stock, but none of these bonds are to be issued in the reorganization.

After the new mortgage just described, in order of security, comes a new closed mortgage for $60,698,820, to secure new money, which is to be raised by assessments upon the holders of the outstanding issues of common and preferred stock, as set forth below. These bonds will bear 5 per cent interest and run fifty years.

Fourth in the rank of liens is a new closed mortgage for $230,950,796, which will represent all the outstanding bonds which participate in the reorganization. These bonds will be surrendered by the holders, who will receive in equal amounts an issue to be known as Adjustment Bonds, limited to these exchanges. They will be income bonds, cumulative from January 1, 1930, with interest at 5 per cent and maturing January 1, 2000. This means that interest will be paid upon them only out of net income remaining after all prior claims have been discharged. If nothing is left they get nothing, but after January 1, 1930, the claim for interest will be cumulative from year to year and be a first charge upon income after interest upon all the issues named above has been met, and coming ahead of dividends on the preferred and common stock.

Through this conversion of bonds now calling for fixed interest payments, into income bonds, upon which interest is to be paid only as earned, the fixed charges of the company will be reduced by over $10,000,000 and its credit correspondingly strengthened. The holders who make this exchange are compensated in some degree by the fact that the new bonds

will pay 5 per cent when the company is able to pay it, whereas the bonds they are surrendering call for only 4 or 4½ per cent, and as events have shown they have not been sure of getting that. A cumulative sinking fund for the retirement of these bonds is to be created at the rate of ½ per cent per annum commencing April 1, 1936, payable only out of net income after payments of full cumulative interest.

Stock Assessment

Preferred stock now outstanding will be exchangeable, share for share, for new preferred stock, subject to the condition that the holder shall pay $28 per share into the treasury, for which, however, he will receive also $24 in the new 5 per cent fifty-year mortgage bonds last described above.

000,000, in part for the purpose of effecting certain proposed settlements with creditors, the remainder to remain in the treasury for future corporate purposes.

These assessments upon the preferred and common stocks are calculated to supply the company with $70,032,548 of new money, out of which and by appropriation of the newly-authorized preferred stock it is proposed to discharge a debt of approximately $55,000,000 to the United States, and certain minor debts, together with reorganization expenses, etc.

The debt to the United States is now secured by the pledge of something over $90,000,000 of company bonds, which will be released by the payment of the notes.

If the plan goes into effect the new and old capitalization will compare as follows:

COMPARATIVE TABLE SHOWING CAPITALIZATION AND INTEREST CHARGES OF OLD AND NEW COMPANY

	Present Capitalization	Present Fixed Interest Charges	Capitalization Giving Effect to Reorganization Plan*	Fixed Interest charges Giving Effect to Reorganization Plan*
Undisturbed Bonds	$181,370,400	$8,431,904**	$181,370,400	$8,431,904**
Timber Loan to be liquidated	2,200,000	110,000	....	....
Notes held by U. S. Government to be paid, compromised or settled	55,000,000	3,300,000	....	....
Bonds to be exchanged	230,950,796	9,994,889	....	....
Fifty Year Five Per Cent. Mortgage Gold Bonds	....	....	60,698,820	3,034,941
Adjustment Mortgage Bonds	....	....	230,950,796	....
Preferred Stock	115,931,900	....	115,931,900††	....
Common Stock	117,411,300	....	117,411,300‡	....
Total	$702,864,396	$21,836,793	$706,363,216	$11,466,845

*The amounts here stated may be increased by the amount of any securities which may be issued in connection with the liquidation of the 6% Note of the Railway Company dated November 1, 1920 held by the United States Government. These amounts include the new securities issued for new money.

**Aggregate of interest for full year at respective rates on principal amount of obligations outstanding June 1, 1925.

††This amount will be increased by the amount of Preferred Stock required to be applied in settlement of general claims against the Railway Company.

‡Taking no par value Common Stock at $100 per share.

Common stock now outstanding will be exchangeable, share for share, for new common stock, upon payment of $32 per share, for which will be given also $28 in bonds of the same issue distributed in like manner to the preferred stockholders. The new common stock will be without a fixed par, issued only in exchange for the old common.

The assessment in both cases is payable one-half on call on thirty days' notice after the plan is declared operative, and the balance with interest at 6 per cent on, or at the option of the holder at any time before, February 1, 1927.

The new preferred stock will have preference only up to 5 per cent per annum; after that the common will receive a like amount, and both classes will share equally in any further distribution. The preferred will have equal voting rights with the common.

Authority is given to raise the present issue of preferred stock from $115,931,900 to $200,-

This is the plan in its essential features. The principal features are the change of a large part of the bonded debt from fixed interest returns to an income basis, the assessment of stockholders for new money to pay off the debt to the government, and the provision for a new mortgage for future financing. The new income bonds, except for the fact that they have a maturity date 75 years hence, are practically a first preferred stock, and for this reason all of the new preferred and common stock will be pooled for five years under a voting trust agreement, to be voted by five trustees, three of whom will be named by the bondholders' committee, one by the preferred stockholders' committee, and one by the common stockholders' committee. Five years covers the time until the income bonds become cumulative.

The proposed capitalization in the aggregate is but slightly larger than the old, the proceeds

of the new bond issue taken by the stockholders nearly all going to pay off old debts. The expenses of reorganization are covered by that part of the contribution from the stockholders for which new securities are not issued. There is no "water" in the reorganization. No outstanding issues have been scaled down. The stockholders will have to continue without dividends until they are earned and the holders of the junior bonds will have to go without interest until it is earned, but their interests are protected by having the company protected from foreclosures and held together while earnings are built up.

Fixed interest charges under this plan will aggregate $11,466,000, while earnings of the company in 1924, available for interest, were $17,529,000. Therefore it appears reasonably certain that interest accruing on the bonds issued for the stock assessments will be paid, and a large part of the interest on the adjustment bonds will be earned from the first.

Outlook for the Reorganized Company

If the reorganization takes place as planned, the future of the company depends upon the development of traffic and reasonable rate-regulation. The territory has great possibilities of development, and when it is recalled that all of our transcontinental lines have passed through a similar experience, with the exception of the Great Northern, there is every reason to expect that the St. Paul, which has a larger mileage than any of the others in the rich territory of the Middle West, will eventually make as good a showing as the others.

Such opposition as has developed to the reorganization plan is based in the main upon the contention that the troubles of the St. Paul road have been due to inadequate freight rates, and that no receivership would have been necessary if the Interstate Commerce Commission had allowed the Western roads to charge rates which would yield results commensurate with those obtained by roads in other parts of the country. There is much reason in the argument for higher rates in that territory, but it will not lose any of its force if the reorganization is effected, for the investment in the road will remain the same and be none the less entitled to a just return.

Increased rates and higher revenues will dissipate most of the objections to the plan. When the adjustment bonds are established on a regular interest paying basis the returns will be higher than on the old bonds, and they may be expected to command at least as high a market price as could be expected for the latter under the most favorable conditions possible. The assessments on the stock will be for the benefit of the stock, giving the company a better capital structure, with means at its command for supplying its capital needs in the future and, moreover, are largely covered by the bonds issued as direct compensation.

Conditions of Sound Capitalization

The company never has been over-capitalized, either with respect to the capital actually invested or in comparison with competitive systems. The capitalization, however, has been approximately $2 of bonds to $1 of stock, which is agreed to be out of proper proportions. The bond-conversion already referred to as practically a conversion to first preferred stock, will correct this situation.

The disproportion came about through the fact that in carrying out its plans for expansion the company ran into the time when railroad stocks had fallen into disfavor with investors, and the management felt compelled to issue bonds rather than stock to complete its undertakings. The tendency of all railroad financing in recent years has been in the same direction and it is something to be gravely considered. Approximately one-half of the new capital required for railroad development should be raised in the form of proprietor's capital. If the debt is disproportionately large, the security is diminished and railroad credit is impaired. The public is interested in having railroad investments bear a good reputation, for this is the condition upon which capital may be secured on the most favorable returns.

Elsewhere in this publication appears an article entitled "Who Owns the Corporations?" in which figures are given showing the wide distribution of the bonds and stocks of the American Telephone and Telegraph Company. Such distribution is generally agreed to be desirable, and several of the strong railroad companies are approaching it, but it is only practicable where dividends are sufficiently protected by earnings to justify people of moderate means in depending upon them as regular income.

Wheat Control During the War

The United States Grain Corporation has published a history of the proceedings taken by the Food Administration and itself to stabilize the price of wheat during the period from the harvest of 1917 to the end of the crop year 1919-20. Besides the purpose to make a public record of this interesting episode in our war history the publication is a direct answer to the charge which has been frequently repeated that the wheat-growers suffered serious losses as the result of governmental price-control. The report is written by Dr. Frank W. Surface, economist of the Grain Corporation.

The substance of the report is that in 1917 the allied governments, which previously had

been represented by independent buyers in the United States markets, consolidated their operations in one purchasing agency. Through the control of world shipping and the blockade against the enemy, this agency was the sole buyer of wheat for export in this country when the 1917 crop came to harvest.

The situation confronting the Food Administration as described had various complications, and it is interesting to note that one of these was the fact that Congress having put a stop to speculation in grain, there was virtually no market in sight for the 1917 crop. The people who think that speculation performs no economic function will do well to read the account which follows:

(a) Congress had given a guarantee of $2.00 per bushel for the 1918 crop, but there was no assurance to the farmer as to the price for the 1917 crop, which he was just harvesting. The price of wheat was falling and the whole price situation was filled with uncertainty and marked by violent fluctuations.

(b) Congress had demanded that speculation should be stopped and passed drastic measures for that purpose. Speculation in wheat and flour could not be stopped if trading in future wheat on the Chicago Board of Trade was continued or if individuals were allowed to buy and hoard supplies. Therefore it was essential to suspend trading in futures in the grain exchanges and to prevent hoarding by any dealer or manufacturer by limiting his stocks, at any one time, to thirty days' supply.

(c) In the absence of speculative buying there was no commercial machinery available to carry the crop until it would be needed in the winter and spring. The farmer must market the bulk of his wheat within four months after harvest. Some one must carry this grain until needed by the mills or for export. With the suppression of speculation, demanded by Congress, and the operation of conservation, there was no one, outside of our own or the Allied Governments, who would buy wheat in the fall in excess of his needs, especially when such individuals were, at the same time, threatened with prosecution for hoarding and for profiteering should the price rise, and were obliged to assume the risk of loss through a possible decline in the market.

(d) If no machinery were provided to buy and carry over the fall market surplus, except buying by the Allies for export, they could, if they chose, depress the price to the farmer during the fall marketing period to any extent they wished. The agents of the Allied Governments had strongly represented that $1.50 per bushel would be a fair price for their purchases, since in both Australia and India, where fair supplies were available, wheat was selling below that figure. * * *

Faced by this situation, Mr. Hoover recommended that a Grain Corporation owned by the United States Government be created to buy and market the grain crop, paying the farmers on a basis to be fixed by an independent committee appointed by the President, a majority of such committee to be representative of farmers' organizations, but with proper representation for consumers. This plan was adopted, and President Wilson appointed a committee consisting of six members representing farm organizations, two representing consumers specifically, and three economists and business men.

The members of the Committee appointed by President Wilson to determine the fair price at which the Government should buy wheat were as follows:

Agricultural Representatives

Chas. J. Barrett, Pres. Farmers' Union, Union City, Georgia.

Eugene E. Funk, Pres. National Corn Association, Bloomington, Illinois.

Edwin F. Ladd, Pres. North Dakota Agricultural College, Fargo, North Dakota, and afterward United States Senator.

J. W. Shorthill, Pres. National Council Farmers' Cooperative Association, York, Nebraska.

L. J. Taber, Master Ohio State Grange, Barnesville, Ohio.

Henry J. Waters, Pres. Kansas State Agricultural College, Manhattan, Kansas.

Consumers' Representatives

Wm. N. Doak, Vice-Pres. Brotherhood Railway Trainmen, Roanoke, Va.

James W. Sullivan, American Federation of Labor, Brooklyn, N. Y.

Business Representatives

Theo. N. Vail, American Telephone and Telegraph Co., New York.

Economists

Frank W. Taussig, Chairman United States Tariff Commission, Washington, D. C.

Harry A. Garfield, Pres. of Williams College, Williamstown, Mass., Chairman of the Committee.

This committee determined on $2.20 at Chicage as a fair price and Dr. Surface in his report states that it is obvious, that had it not been for this decision by the Committee, the American farmer would have received far less for his wheat than was the case. The report shows that Mr. Hoover, then Food Administrator, took no part in the Committee's determinations, thus disposing of the myth that Mr. Hoover fixed the price.

Dr. Surface shows that the price determined by the Committee was not a fixed or maximum price. It was a minimum price and at times the open market price was higher, but with speculation prohibited and foreign buying consolidated, the price paid by the Grain Corporation naturally tended to be the market price. He also points out that the result of the Committee's decision was not only protection for the 1917 harvest but in reality was a revision upward of the Congressional minimum from $2.00 to $2.20 for 1918 wheat.

Price statistics are given showing that during the period from September, 1, 1917, to May 31, 1920, when the Grain Corporation was active in the markets, wheat prices averaged higher in the United States than in any other surplus-producing country. Calculations are given also showing that wheat prices were relatively higher throughout this period than the prices of other farm products. That the prices encouraged the production of wheat is shown by the fact that the acreage sown to that grain increased steadily from 50,829,000 before the war to 76,683,000 acres for the 1919 harvest.

The armistice brought on a very trying situation, the allied governments turning to

wheat stocks in Argentina and Australia available at lower prices. For some months it looked as thought the Government would sustain a very heavy loss, but through the vigorous action of Mr. Hoover large sales were made to the former enemy countries, which prevented not only loss to the Government on wheat but to the farmer on pork and other products on which there was no Government guaranty. At times the Government had nearly $600,000,000 invested in wheat, as a necessary part of its policy in maintaining the price, and only the most skillful management, and some good fortune in the form of unfavorable harvest weather in 1919, saved the Government from heavy loss.

The review is supported by the record, and undoubtedly is a correct account of the policies and procedure of the Government Food Administration. It is to be hoped that it will put an end to the misrepresentations which have been current.

Texas Enterprise

A commendable movement in which much interest has been developed in Texas is one advertised as "More Cotton from Fewer Acres," but which represents an effort to organize the counties of that state on broad lines for more efficient agricultural production.

The general idea is the same that has had expression in some localities as the Banker-Farmer movement and under various slogans, the purpose always in view being to supply leadership and incentives which will overcome the routine methods of a large portion of the farming population, and produce better results.

In Texas as in other parts of the cotton country, the tendency is to grow cotton to the neglect of other crops, and this movement concentrates on the effort to demonstrate that it is possible to grow as much or more cotton on fewer acres, thus releasing land which can be used for other crops, and make the farmer more independent and secure than he can be under the one-crop system.

In East Texas the movement was given a start which attracted attention in 1923 in Smith County, where the business men of Tyler offered prizes aggregating $1,500 for high yields of cotton on five acres of ground, $700 for exceptional yields of corn on three acres, and $300 for yields of peanuts on two acres. Some notable results were obtained from these contests, as for example, a production of eight bales of cotton of 500 pounds each on five acres by one contestant. In the Fall when the prizes were awarded a public dinner was given to the successful contestants and attended by 300 farmers and business men, and from the publicity received the movement obtained a strong impetus, spreading to many counties. The Dallas News took it up early in 1924, offering a $1,000 cash prize to the Texas farmer who would grow the most cotton on five acres not irrigated. This campaign stimulated widespread interest over the State and the prize-winner made a record of 5,081 pounds of lint cotton grown on five acres.

Judge J. W. Fitzgerald, of the Citizens National Bank of Tyler, and Chairman of The Agricultural Committee, Tyler Chamber of Commerce, has been a leader of the movement in East Texas, and under his energetic direction the campaign in 1925 has been more systematically organized and taken on greater importance than in the previous year. The Dallas News is again offering a cash prize of $1,000 to the Texas farmer who will produce the largest amount of lint cotton on five acres not irrigated, and $500 additional in prizes to the three farmers who keep and furnish the Committee next Fall the best record and most valuable data about cotton-raising. The Dallas Cotton Exchange and Texas Cotton Association have gotten into the game with offers of $1,500 in three prizes, one to the East Texas farmer in a certain defined territory, one to the West Texas farmer in defined territory, and one to the South Texas farmer in a defined territory, who will make the most cotton, measuring a full inch in length, on five acres of land.

This year many towns and cities over the State have joined the movement by offering prizes for local contestants, with the result that everywhere a lively interest is being developed. The point is made that the object is not to increase the aggregate production of cotton in Texas at this time but to release land for food and feed crops without reducing the yield of cotton, and thereby save the cotton-growers from the drain of money which now goes for these supplies. What has been accomplished indicates that this is possible.

It cannot be questioned that agricultural production in every part of the country can be increased and the costs of production lowered by the adoption of improved methods. Moreover, there is no other way in which the prosperity of the market towns can be as surely promoted as by cooperating to advance the prosperity of their surrounding territory.

Canadian Affairs

During the politica campaign in this country last year reference was made to certain railway rate reductions in Canada, and they were cited as evidence that rates could and should be reduced in this country. It developed that quite a story was attached to these reductions. The rates in question were fixed originally by an agreement made in 1897 between the Canadian Pacific Company and the Canadian

Government, whereby the latter granted a subsidy in aid of what is known as the Crow's Nest branch and the company agreed to a certain permanent schedule of rates upon grain, binder twine, farm implements and hardware. On account of the great increase of operating costs resulting from the war the Dominion Parliament passed an act suspending the operation of this agreement so far as the rates were concerned for a period of five years, and upon the expiration of the period the rates automatically went back into effect. They were held by the company, however, to be binding only as to rates upon the portions of the Canadian Pacific system which were in existence when the agreement was made, and it declined to restore them as to the portions constructed since that time.

The effect of this action was to create serious discrimination in the treatment of different localities on the system. A case alleging discrimination was brought before the Dominion Railway Commission, which held that the legislation, subsequent to the making of the Crow's Nest agreement, creating the Commission and charging it with the duty of fixing rates and prosecuting discriminatory charges, had the effect of superseding the agreement. The western provinces carried the issue from the Commission to the courts, and recently the Supreme Court has decided that the Commission is without jurisdiction to interfere with the rates fixed in the agreement, they being of a statutory character and not subject to review by that body. It upheld, however, the Company's contention, that the specified rates apply only to points on the railway as it existed in 1897, which throws the situation back into the former state of confusion. Further legislation will be necessary, for this situation is intolerable, not only because of the competitive relations between communities but because of the competitive relations between the Canadian Pacific Company and the Canadian Northern system owned by the government, which has been unable to pay its way, and in the past year had a deficit of $54,860,419, including fixed charges.

The Tariff Question

The protection issue was forced to the front last month in the Canadian Parliament by Mr. Meighen, leader of the Conservative opposition, who offered a resolution in favor of an immediate revision of the tariff upon a consistently protective basis, including elimination of the British preference where such preference conflicts with Canadian interests, with conservation of power and other national resources. Mr. Meighen made a lengthy speech to the resolution, which is summarized in a brief newspaper report as follows:

Mr. Meighen reviewed the history of protection in Canada, emphasized the position of the iron and steel and woolen industries, urged the manufacture of Canadian raw products within the Dominion, and suggested retaliation or any other method in order to develop the natural resources and expand Canadian industries. He said that if pulp and electric power "are not ours to legislate about as we will then we should assume a position of permanent tutelage and cease to proclaim ourselves a nation." As to the British preference, if preference could not be given save at the expense of protection to the Canadian worker he would give no preference. "My principle," he said, "is to give advantage for advantage but not to give without. It must always be a case of Canada first, or we may just as well resign ourselves to the sliding back process that characterizes our trade to-day."

Mr. Forke, leader of the Progressive party, which has its principal strength in the Western provinces, opposed the resolution, saying that the west would not accept higher protective duties. The resolution was opposed by both Liberals and Progressives and defeated, 147 votes to 37.

The question over the export of electric power has been disposed of by a resolution offered by the premier and adopted by both houses of the Parliament to the effect that exportation shall be permitted only on a yearly license and that "hereafter no license for the export of power beyond those already granted should be issued except with the concurrence of the province or provinces in which it is proposed to develop such power and of any other provinces adjacent to such development and interested therein."

The Royal Bank of Canada has taken over the Union Bank, which reduces the number of banking institutions in Canada to eleven, with 3,965 branches in Canada, in addition to which they have 24 branches in Newfoundland and 164 in foreign countries.

Crop prospects in Canada at this time are excellent.

The Prosperous Tobacco Industry

An examination of the tobacco companies' annual reports to stockholders which have been published this Spring shows in most instances a gain over the previous year and a degree of stability found in few other industries. This is due in part to the limited fluctuations in the consumptive demand for tobacco products, whose sales in times of general business depression suffer practically no falling off and sometimes actually increase, and also to the fact that a large percentage of the total volume of business is handled by some two-dozen strong companies.

We give below a tabulation of earnings for the past three years of the more important companies which issue public statements. The figures represent the net profits available for dividends or to carry to surplus, i. e., after all expenses, depreciation, interest, reserves and

provisions for taxes. Reports are for fiscal years ended December 31st in each case.

MANUFACTURERS TOBACCO PRODUCTS
(Net Profits—000 Omitted)

	1922	1293	1924
American Cigar Co.	1.636	1.724	1.633
American Snuff Co.	2.194	2.083	1.859
American Tobacco Co.	18.833	17.808	20.785
Bayuk Cigars, Inc.	1.124	902	862
Consolidated Cigar Corp.	1.055	472	1.081
General Cigar Co.	2.732	2.938	2.764
George W. Helme Co.	2.006	2.096	2.200
Liggett & Myers Tobacco Co.	9.724	9.622	11.970
P. Lorillard Co.	6.888	5.038	5.205
R. J. Reynolds Tobacco Co.	20.479	23.040	23.778
Schulte Retail Stores Co.	2.844	3.764	4.342
Tobacco Products Corp.	5.465	4.380	7.617
United Cigar Stores Co.	4.360	4.758	6.697
United States Tobacco Co.	2.013	2,113	2,197

Prospects are that the current year will be another very satisfactory one both as to volume of sales and earnings. Reports of the Internal Revenue Bureau covering taxes collected on tobacco products show that cigarette production is running substantially ahead of last year, while the output of cigars and other manufactured products is somewhat less. The popularity of the American cigarette continues to grow both here and abroad and the number on which taxes were paid during the first five months of 1925 totals 31,118 million, comparing with 28,097 million for the corresponding period last year or an increase of 10.7 per cent, and with 20,429 million in 1921 or a 52.2 per cent increase. Cigar production, however, still follows the comparatively even course of the last twenty-five years, with between 400,000,000 and 700,000,000 per month produced, notwithstanding the development of cigarette smoking and the growth in population during that period. Output so far this year, including May, was 2,439,000,000 and represents a 6.5 per cent decrease from the 2,610 million for last year. Other manufactures of tobacco, including smoking, chewing and snuff, show no material change, with the output averaging around 35,000,000 pounds per month.

Leaf Tobacco Situation

The stocks of leaf tobacco on hand have been known for several months to be rather heavy and the recently published quarterly report by the government showing an aggregate of 2,035,677,863 pounds on April 1st therefore did not create much surprise. This covers the leaf tobacco held by registered dealers, in U. S. bonded warehouses and in manufacturing establishments. The figure is 3.0 per cent over the 1,976,569,000 for April 1, 1924, and 10.2 per cent above 1923, but would not appear to be excessive in view of the continued growth in cigarette consumption, and the custom of drying tobacco for one to three years before using. Last year's crop was 1,242,000,000 pounds compared with 1,515,000,000 in 1923 and due to the dry weather in the Southern tobacco belt this Spring a yield of not more than last year's is looked for. Prices are firm for all types except Burley, which is moderately lower than a year ago.

Tobacco Exports

Our foreign trade in leaf tobacco, which is this country's oldest export commodity and of which we are the world's largest grower and exporter, has reached an importance not generally appreciated. The following condensed summary shows a gross trade exceeding a quarter billion dollars annually. It is interesting to note that while we exported last year 575 million pounds of leaf tobacco or around 46 per cent of our 1924 crop to other nations, principally Great Britain, China, Germany, France and the Netherlands, and received therefore $164,000,000, we imported for our own use 68.5 million pounds, principally cigar leaf from Cuba and cigarette leaf from Greece, for which we paid $75,000,000. To put it another way, we realized an average of about 28c per pound for American tobacco sold and purchased one-eighth as much of foreign tobacco at $1.10 per pound. The 10 billion cigarettes went to all parts of the globe. It is of interest also that last year the U. S. Treasury collected around $325,000,000 in excise taxes on the tobacco products consumed in this country.

The Tobacco Growers

The tobacco growers have not suffered a depression comparable to that of the wheat and corn farmers, and the fall of prices in the deflation period was not so severe. There was an immediate curtailment in acreage which checked overproduction, while consumptive demand for tobacco products continued to forge ahead. The area planted in tobacco had been increasing each year, from 1,013,000 acres in 1911 to 1,960,000 in 1920, and the yield increased proportionately from 905,109,000 pounds to 1,582,225,000 pounds respectively in these years. During the war prices became much higher, and the government's "unit price," which averaged 10.0 cents per pound for the five years 1906-1910, and 10.4 for 1911-1915, went up to 39.0 cents in 1919 from which it dropped to 21.2 for the record 1920 crop. This caused the aggregate money return to the growers to decrease from $570,868,000 in 1919 to $335,675,000 in 1920, but it was still more than double the pre-war figures. Only 1,427,000 acres were planted in 1921, representing a curtailment of 27.2 per cent, and the resulting yield was 1,069693 pounds, or 32.4 per cent smaller. Prices since that time have remained relatively stable.

TOBACCO IMPORTS AND EXPORTS (CALENDAR YEARS)

	1923 Quantity	1923 Value	1924 Quantity	1924 Value
IMPORTS:				
Unmanufactured—				
Cigar wrappers, lbs.	7,708,257	$18,133,975	5,894,191	$15,099,732
Cigar leaf, lbs.	25,453,058	24,153,479	22,631,110	26,226,235
Cigarette leaf, lbs.	20,221,902	13,773,256	36,965,068	33,134,049
Scraps and other unmanufactured, lbs.	4,286,478	1,097,669	3,099,103	901,997
Total Leaf, lbs.	57,669,695	$57,158,379	68,589,462	$75,362,013
Manufactured Products—				
Cigars and cheroots, lbs.	4,693,791	$9,259,727	3,568,129	$8,074,888
All other manufacturers, lbs.	343,093	430,940	325,652	444,487
Total Manufactures, lbs.	5,036,884	$9,690,667	3,893,781	$8,519,375
Total Imports, lbs.	62,706,579	$66,849,046	72,483,243	$83,881,388
EXPORTS:				
Unmanufactured—				
Leaf tobacco, lbs.	474,500,139	$152,303,061	546,257,339	$162,885,058
Stems, trimmings and scraps, lbs.	22,846,496	1,135,668	28,846,611	1,096,194
Total Leaf, lbs.	497,346,635	$153,438,729	575,103,950	$163,981,252
Manufactured Products—				
Cigars and cheroots, thousand	1,070	$33,970	710	$25,330
Cigaretts, thousand	12,252,528	23,085,136	10,495,883	19,408,248
Smoking, chewing, snuff, etc., lbs.	5,128,006	2,650,328	5,556,395	2,622,542
Total Manufactured		$25,769,434		$22,056,120
Total Exports		$179,208,163		$186,037,372

Who Owns the Corporations?

The Academy of Political Science, an organization under the auspices of Columbia University which semi-annually conducts a discussion running through three sessions upon some timely subject of popular interest, devoted its spring session this year to "Popular Ownership of Property: Its New Forms and Social Consequences," and the pamphlet containing the papers prepared for the occasion and discussion thereon is now available and will repay examination.

Several of the papers set forth the interesting facts relative to the distribution of stock-ownership in corporations which are now doing a large part of the business of the country. The tendency to widespread ownership is so evident that it must be regarded as a permanent and growing factor in our industrial and social life. Evidently, the day for thinking of the corporations as a foreign and more or less unassimilable element has gone by. They are being assimilated into the body of the people. There is no reason why prejudice against accumulations of wealth should influence the public attitude toward corporations when the accumulations which the corporations represent are owned by the masses of the people. The corporate organization is demonstrated to be a practical means by which the ownership of large enterprises may be taken from the hands of a few and placed in the hands of the many. Moreover it is demonstrated that this distribution is the natural tendency.

The American Tel. and Tel. Company

The American Telephone and Telegraph Company leads all other corporations in the number of persons interested in it financially, this because of the nation-wide extent of its operations and the necessity which has existed for it to constantly raise new capital, in order to develop the telephone plant to take care of the increasing demands upon it. In 1912 it had 50,000 stockholders and in 1915, 65,000. In recent years its has begun to raise capital by appealing directly to its customers and employes, using its employes as salesmen, with the result that a much wider distribution has been obtained. Of course this policy has been promoted by the fact that the business is a comparatively stable one, and the company has been able to pay good dividends regularly.

Mr. F. L. Devereaux, Vice-President of the Bell Telephone Securities Company, gave the following facts as to the distribution of the stock in this, the premier corporation of the country in capitalization and earnings:

You will be interested to learn that while 348,000 stockholders own the American Telephone and Telegraph Company, it has been conservatively estimated that there are more than 630,000 persons owning Bell System securities. At present more than 62,500 employees of the Bell System are stockholders of record in the American Company and more than 165,000 are acquiring the stock through payroll deductions. There are 215,000 persons owning bonds of the Bell System, and there are more than 22,128 outside holders of common stock of the Associated Companies, and about 162,000 owners of preferred stock of the Associated Companies.

The Bell Telephone business is a growing one, and money is constantly required for additional plants The American Company goes directly to its owners for a great part of the additional capital. For ex-

ample, in August, 1922, $117,000,000 of stock was offered to its stockholders, and in May, 1924, $153,-000,000 was offered. Both of these issues were subscribed almost in total. It is interesting to know that in the last issue 192,000 persons subscribed to the new stock, and of these 149,000 subscribed for one to five shares, which was 77 per cent of the total subscriptions. The number of shares subscribed for by these people taking less than five was 336,000, while the total number of shares subscribed for was 1,492,000. Although arrangements were made so that the stock could be paid for in installments, it is interesting to know that 73 percent of the shares were paid for in full.

The list of owners of the Bell System presents a cross-section of the American people. It includes laborers of every sort, farmers, housewives, stenographers, clerks, teachers, students, physicians and others, as well as bankers and capitalists. Of the American Company stockholders, 329,733 own less than 100 shares, 277,479 own 25 shares or less, while 122,769 own 5 shares or less. The average number of shares held is 26. Among the preferred stockholders of three of the Associated Companies, there are 1,249 bankers, 10,700 clerks, 21,600 housewives, 24,317 laborers, 2,700 physicians, 3,000 teachers and 4,100 stenographers.

This is a pleasing example of popular ownership, and it is well to emphasize that it is the result of a liberal public policy toward the corporation, as well as of good management by the corporation.

The company pays dividends at the rate of 9 per cent per annum on the capital stock, but the assets are stated by Mr. Devereaux at $2,270,000,000, while there are only $752,000,-000 of stock and $1,093,000,000 of bonds outstanding. The high standing of the stock as an investment enables the company to raise new capital for enlargements without difficulty and also to raise a large proportion of the capital at comparatively low cost by the sale of bonds.

Showing in the Major Industries

Mr. Robert S. Binkerd, Vice Chairman of the Committee on Public Relations of the Eastern Railroads, submitted the result of an inquiry into the stock-ownership of the railroads, public utility companies, and certain selected industries as of January 1, 1918, and January 1, 1925. His figures are as follows:

NUMBER OF STOCKHOLDERS

Industries—	1918	1925
Railroads	647,689	966,170
Express and Pullman	12,956	23,779
Total railroad and allied service	660,645	989,949
Street railways	275,000	550,000
Gas, electric light and power companies	1,250,000	2,611,279
Telephone and telegraph	107,033	371,604
Packers	65,000	100,000
10 oil companies	23,502	161,179
5 iron and steel companies	130,923	223,149
10 high-grade miscellaneous manufacturing and distributive companies	25,002	44,339
Total	2,537,105	5,051,499

In the seven years from 1918 to 1925, therefore, stockholders in the above enterprises increased 2,514,394. In other words they practically doubled. Of the increase, 338,700 were employes of the industries in which they purchased stock, 864,754 were regular customers of such industries and 1,310,880 were of the general public.

Mr. Binkerd says:

Twenty-six Class I railroads, representing about 60 per cent of the main-line mileage of the country, had 454,304 stockholders on January 1, 1918 and 699-552 stockholders on January 1, 1925. It is these 26 companies which show an increase of 70,262 in the number of employe stockholders and 45,003 in the number of customer stockholders.

The number of stockholders in street railways in this country has doubled since 1918. Only a small part of this increase has come from employes or customers.

The packing industry shows an increase of approximately 35,000 shareholders. Seven thousand of this increase comes from the employes of the industry, making the total employe interest today not less than 20,000 shareholders.

Ten oil companies, representing more than 10 per cent of the production of the oil industry, show an increase in stockholders from 23,502 to 161,179 or nearly seven times. The bulk of this increase comes from the general investing public. These companies include one from the Standard Oil group and a number of independent companies operating in different parts of the country. The bulk of the employe shareholders are to be found in the company from the Standard Oil group.

Five steel companies, representing about 70 per cent of the production of the steel industry, show an increase from 130,923 stockholders to 223,149. These companies show the largest participation by employes as shareholders, the figure standing at 87,696.

To get some picture of our general manufacturing and distributive industries, I went to a high grade industrial banking house which does the financing for ten well established, diversified manufacturing and distributive companies. These companies include boots and shoes, clothing, typewriters, automobiles, mail-order houses and department stores. They show an increase from 25,002 stockholders in 1918 to 44,339 at the beginning of 1925. Some small part of this increase came from employes and customers but it was not possible in the time at our disposal to ascertain what proportion.

The employe interest in all industries is understated. The bulk of the stock sold to employes is bought on the installment plan and the employe does not legally enter the list of stockholders until the period of installment payments is completed. This period generally ranges anywhere from 21 months to 5 years.

Gas and Electric Light and Power Companies

Mr. Binkerd reports that the number of stockholders in gas and electric light and power companies has slightly more than doubled since 1918. This has been largely the result of the "customer ownership" campaigns, by which 815,955 new shareholders have been obtained since January 1, 1918.

The National Electric Light Association gives the following figures for the number of new stockholders obtained and shares of stock sold to them by years since 1914.

Year	Stockholders Obtained	Shares of Stock Sold
1914	4,044	92,310
1915	4,357	57,130
1916	3,681	38,183
1917	8,242	82,007
1918	5,186	42,388
1919	19,872	194,021
1920	53,063	454,139
1921	118,544	830,222
1922	156,725	1,450,707
1923	279,186	1,806,300
1924	259,788	2,288,108
	912,688	7,335,515

Practically all of this customer distribution was in preferred stock and for averaging purposes, the amount of subscriptions in dollars may be arrived at by multiplying shares of stock sold by one hundred in each case.

The total investment in electric light and power companies at the beginning of 1924 was $5,800,000,000 and January 1, 1925, $6,600,000,000, an increase for the year of $800,000,000.

It will be seen that customer distribution absorbed in excess of 25 per cent of the total last year and considering the trend and the increasing activity of electric light and power companies in systematically encouraging customer ownership, it seems probable that in a year or two the customer demand will absorb one-third of the total annual issues of these companies. With the customers thus taking the whole of the preferred stock equity issues the soundness of the bond issues is naturally improved and such bonds will become increasingly popular on better terms from the issuing company point of view. The mortgage terms of these bonds are gradually being improved and made more flexible; indeed it is claimed that the whole character of public utility financing has been changed by the growth of this customer ownership movement. The effect of it is also being felt in the local political situation and improved public goodwill toward the utility companies.

Bank Savings Accounts

Mr. Binkerd also gives an interesting summary of the growth of bank savings accounts. He found that on January 1, 1918, there were 10,631,586 savings account depositors. Their deposits aggregated $11,115,790.000. At the opening of business on January 2, 1925, depositors numbered 38,867,994 and their deposits aggregated $20,873,552,000. In other words, in the seven years under consideration savings accounts increased in numbers 28,236,408 and the aggregate of the deposits increased $9,757,762,000.

The Labor Banking Movement

Mr. Sidney Hillman, General President Amalgamated Clothing Workers of America, and member of Boards of Directors of the Amalgamated Labor Bank, New York, and Amalgamated Trust and Savings Bank, Chicago, submitted a paper on the Labor Banking Movement, reviewing the growth of the labor banks. He summarizes it as follows:

It is just five years since the labor banking movement in the United States began. In November, 1920, when the bank of the Locomotive Engineers was launched in Cleveland, the country was on the eve of the post-war industrial depression which has hardly been interrupted since. Yet this banking movement has grown more rapidly, and, indeed, more successfully than almost any other new enterprise of the labor movement.

It is a highly significant fact that, in only five years, it has been possible to develop, at so rapid a rate, institutions whose greatest asset is the confidence of the public in them. Already twenty-nine labor banks, with resources of close to ninety million dollars are in operation throughout the country. As the following table shows, these institutions are now to be found in seventeen states under the control and auspices of a highly diversified group of trade unions. In addition to these banks wholly controlled by labor organizations, there are two large banking institutions in which trade unions have a substantial, if not a controlling interest. At their last statement, these two institutions also had combined resources of practically ninety millions.

* * *

The business of these various institutions is naturally a highly diversified one. Some are primarily savings banks; others do a large commercial business. All, as they grow in resources, are coming to exert a growing influence without, as well as within, the labor movement. How ramified their activities are likely to become is now largely a matter of conjecture, but it is reasonable to expect their entry into the manifold activities of finance which have always engaged the attention of the established banking institutions. As a result of the initiative of the Brotherhood of Locomotive Engineers, seven labor investment companies are now doing business in this country. The promise which such a movement holds out cannot be overestimated.

* * *

These investment companies have a combined capitalization of more than $20,000,000. Figures showing the volume of their transactions are not available, except for the Brotherhood Investment Company of Cleveland whose total assets on December 31, 1924 were $14,885,369.49.

* * *

Regardless of what our notions may be of the ultimate goal of this movement, it is unquestionably a constructive movement. It is a movement that puts large organizations in touch with the specific daily responsibilities of industry. It aims at the acquisition of the knowledge of management by these large groups. It means placing a larger and larger group of people in direct contact with the problems of our complicated social and economic life.

It has, in addition to this most fundamental function, already indirectly conferred many benefits and is likely to extend such benefits much more widely in the future. Almost at this moment, for example, our organization, the Amalgamated Clothing Workers, has completed plans for the erection of cooperative houses by a corporation which is sponsored by our organization, in cooperation with the Amalgamated Bank of New York. This project will initially involve an investment of over $1,000,000. The plan is to construct now 250 apartments with over 1,000 rooms. We expect to rent these rooms for $5.00 less per month than they could be rented from individual profit-making corporations. We expect to give the average person using four rooms the equivalent of a $20.00 wage increase in this manner. But what is more important is that we are placing a group of people in the position of being their own landlords, of actually building their own homes and managing them. In this way the labor movement gets the knowledge and confidence that comes from assuming the functions of management.

Whatever may be said concerning the ultimate development of labor banks, (and I believe that no one is really in a position to predict what it may mean), they will perform a function entirely different from that performed by such devices as employee participation in ownership or other methods for the wider diffusion of ownership. What distinguishes labor banking and the other new cooperative enterprises of the labor movement from these plans for the wider distribution of property is the former's provision for taking over the responsibilities of management as well as of ownership.

The most significant thing about this development of which Mr. Hillman writes is that it arouses no controversy or opposition. Nobody reasonably can object to it or do other than wish it success. It means education, ex-

perience, development and improved conditions for the masses, by methods which must command the cooperation of all.

Moreover, this policy of gradually improving social conditions by developing the capacity and understanding of all the people is the only one that promises results. That the policy of violent revolution or change cannot accomplish the desired results, is recognized by Mr. Hillman in the last three paragraphs of his paper, which we give in full herewith. He says, speaking of the new ownership:

It would be a misfortune if a large number of owners suddenly began to take their powers of ownership seriously. I question what might happen when great numbers, inexperienced in management, proceeded to asume the functions of management. Suppose they all assign their proxies following a campaign more or less like our political campaigns, in which we know that all issues but the essential ones are discussed. It may very well happen that, under such circumstances, management will suddenly be turned over to a group of people who have neither the knowledge nor the experience to run institutions with resources of over a billion dollars. I read recently the statement of a large insurance company of which I happen to be part owner. I note that it has resources of over one billion dollars. Imagine the consequences if a large group of stockholders should take charge of that billion-dollar institution. It is, I think, placing too much confidence in democracy to believe that such enterprises can be run without any preparation or experience.

To me the hopeful aspect of this new attitude of labor, not only from the point of view of the labor movement but also from that of the public at large, is that power and responsibilty are being assumed together. There is no question, I believe, in the minds of most people that democracy is preferable to any other form of government. We all know, however, that in our political democracy we have reached a state where less than fifty per cent of those eligible to vote avail themselves of their right, and in some states the number is as low as ten per cent.

We must realize that the democratic form of government is bound to penetrate our industrial life as well. It cannot be confined merely to our political institutions. It, therefore, seems all important to me that we should find a way for the introduction of democracy into industry whereby experimentation with the popular conduct of industry will be so gradual that mistakes will be corrected without disastrous effects on the industry and the nation in general. For these reasons, the labor banking movement, being merely a sign of the general tendency of organized labor to participate constructively in the economic and social affairs of the community, should be welcomed. It is the one constructive way to meet the industrial problems that now confront us.

There is no answer to Mr. Hillman's paper. It presents a solution of the social question which is in actual demonstration.

Comments by Professor Thomas Nixon Carver

We think we cannot close these extracts from the papers read at these sessions of the Academy more appropriately than with the following one from the address of Professor Thomas Nixon Carver, of the Department of Economics, Harvard University. He said, in part:

One of the most significant economic movements of the present day is the rapid diffusion of ownership. In the past there has been considerable concentration of ownership. There is always a greater inequality of ownership than of incomes because many people of ample incomes own no property. There has generally been greater inequality of incomes than of consumption because most of the contributions to philanthropic causes and most of the investments in future business development have come from people with relatively large incomes. This has subtracted from their consumption, so that there has resulted a much greater approach to equality of consumption than to equality of income. This is being partially corrected at present by the fact that people with small incomes are beginning to invest more heavily than they have in any previous period of our history. New supplies of capital are furnished in increasing quantities from people with small incomes.

* * *

This diffusion of ownership is taking place without any radical change in our institutions or in the laws affecting property. Ownership in industrial corporations is being acquired by the well recognized method of purchase. Ownership of corporations is being diffused by precisely the same method as that by which ownership of automobiles and radio sets has already become widely diffused.

This diffusion does not require any radical change in the form of business organization. The joint stock form of ownership furnishes as good an opportunity for popular ownership as has ever been invented, even on paper. The joint stock corporation always was, in theory, a democratic institution. For several reasons it failed, in the past, to be democratic in practice. It is now actually becoming, in practice as well as in theory, a democratic institution.

* * *

It is too soon to predict all the results of this diffusion of ownership or to say how far-reaching some of those results may be. It is at least reasonable to expect that when the laboring and capitalist classes become somewhat blended, there will be less class-conscious antagonism between them, even though there remain many laborers who are not capitalists and many capitalists who are not laborers. If the great majority of the laborers are capitalists, even in a small way, and if the great majority of capitalists really have to work in order to earn a living, this blending of the two classes will eliminate the gulf that formerly separated them. The average laborer then will not think of himself as exclusively a laborer and of capitalists as different from himself. He will realize that he is, at least in part, a capitalist as well as a laborer. And when the majority of capitalists have to work to supplement their incomes, they can no longer think of themselves as belonging to a class separate and apart from laborers. It is difficult to see how there can remain a class-conscious antagonism when the two classes have blended even to this extent.

The above suggestion is not to be confused with the suggestion that wage controversies will disappear. A wage controversy is one thing and class-conscious labor conflict is a different thing. Buyers and sellers everywhere dicker and quarrel over prices. So long as they regard themselves as members of the same class, their quarrels do not become class-conscious. If, in addition to the irritation that grows out of price controversy, the two sides feel that they belong to different social classes, there is a double source of irritation, and the quarrel becomes much more bitter and destructive. Wage controversies of the future, in this country, will probably be much less rancorous and destructive than they have been in the past, because the element of class-consciousness will be eliminated. There is no intelligent and right-minded person in the world who would not welcome the elimination of any source of irritation that is productive of rancorous human conflict. The only people who can can possibly regret such a tendency will be those who prosper by creating or leading such rancorous conflicts. The preachers of class war, however, have no more right to our consideration than the preachers of international war.

It is reasonable to suppose also that this wide diffusion of ownership, especially of the shares of large industrial corporations, would result in a real democratization of industry. Where the workers in an industry actually own it or own a considerable share in it, they automatically acquire a place on its councils. The participation of labor in management does not then have to be artificially promoted or based on any artificial ground. This will be real

democratization, as distinguished from the spurious sort known as government ownership. The worker on publicly owned property actually feels no more interest in it than the worker on privately owned property. Those who naively imagine that every worker on publicly owned property feels that he is working for himself should take the trouble to observe the interest that the men who are employed on our public streets or the men who work in the city hall of any city take in their work. If the latter really felt that the city hall was theirs—which they obviously do not—the chances are that they would not work as well as they now do; but as a matter of fact, they feel no sense of proprietorship at all. There is no reason to think that they would feel differently if they worked for a publicly owned railroad or street car company. But if they owned it in the real sense, as they own their houses and household furniture, by virtue of having bought and paid for it, it is no longer necessary, by artificial means, to endeavor to promote an interest in that property.

A Book on the Subject

Pertinent to the foregoing discussion is a little book written by Mr. Robert Brookings, for many years a well-known business man of St. Louis, later President of Washington University of St. Louis, Chairman of the Government's Price Fixing Committee during the war and now President of the Institute of Economics at Washington, D. C. The book is entitled "Industrial Ownership," and covers briefly but with much intelligent comment the same line as the extracts that have been given. It quotes from a letter received from the President of one of the large national corporations as follows:

'You may be interested in the following facts: of the 8,069 stockholders in this company over 90 per cent own 100 shares or less. All of the directors combined with their relatives and friends whom they could control do not own 10 per cent of the outstanding capital stock."

After discussing the importance of maintaining continuous improvements in social conditions, Mr. Brookings comes to the conclusion reached by economists generally, that "our chief hope of making further progress is in the increase of per capita production," and adds the following comment, which is especially pertinent just now, when there is so much said of overproduction:

The emphasis I have laid on means of increased production may raise the question: What of those industries which are suffering already from overproduction? Is there a limit to the world's needs for manufactured goods, and if so, is there need of protection against overproduction?

* * *

The answer is threefold. In the first place, overproduction in whole industries is to a large extent the result of underproduction in other industries. The overproduction of farm products and of certain metals today exists because a large part of the world has ceased to produce other goods with which to pay for the products of these overdeveloped industries.

One of the interesting features of the book is the following table showing the average net earnings of twenty of the country's leading industrial corporations over the five year period 1919-23 inclusive, in comparison with the profits of national banks. The percentage calculation for industrial corporations is based upon capital stock alone, surplus disregarded in order to make allowance for excess-capitalization in some cases.

SUMMARY OF THE CAPITALIZATION, SURPLUS, NET EARNINGS, AND RATIO OF NET EARNINGS TO CAPITALIZATION OF A SELECTED GROUP OF INDUSTRIAL CORPORATIONS AND OF THE NATIONAL BANKS FOR THE PERIOD 1919-1923.

Company	Average Capitalization	Average Surplus	Average Net Earnings	Percentage Net Earnings to Capitalization.
United States Steel Corporation	$1,415,209,600	$507,464,000	$102,299,800	7.23
Bethlehem Steel Corporation	296,331,800	11,108,800	21,405,800	7.22
Republic Iron and Steel Company	69,715,200	32,779,600	3,009,000	4.32
National Lead Company	53,603,200	21,447,400	5,043,800	9.41
American Car and Foundry Co.	60,000,000	34,372,200	8,704,200	14.51
The Baldwin Locomotive Works	50,000,000	13,920,600	6,013,400	12.02
Westinghouse Electric & Mfg. Co.	99,088,200	42,557,400	13,834,400	13.96
The Worthington Pump & Machinery Corporation	21,689,800	3,635,600	1,570,000	7.24
International Harvester Company	152,516,600	60,606,600	11,626,400	7.62
American Agricultural Chemical Co.	87,707,000	5,316,600	1,118,800	1.28
Swift & Co.	220,823,800	71,687,400	12,353,600	5.59
American Sugar Refining Company	102,000,000	11,607,800	6,920,000	6.78
Corn Products Refining Co.	81,226,800	34,265,800	10,750,400	13.24
American Tobacco Company	152,455,600	24,253,600	18,748,800	12.30
American Woolen Company	78,000,000	32,276,200	7,065,800	9.06
Central Leather Company	99,048,200	2,073,800	Def.3,152,200	—3.18
Cluett, Peabody & Co., Inc.	26,185,600	7,172,800	2,649,400	10.12
Endicott Johnson Corporation	30,969,200	3,396,000	4,549,800	14.69
United States Rubber Co.	226,505,200	38,873,200	15,592,800	6.88
The Studebaker Corporation	72,582,000	14,977,800	13,194,400	18.17
Aggregate	$3,395,657,800	$973,793,200	$263,298,400	
Average	169,782,890	48,689,660	13,164,920	7.75
All National Banks	1,249,237,400	a1,450,900,000	225,142,600	b8.34

a Average surplus and undivided profits.
b Percentage of net earnings to capital, surplus, and undivided profits.